The Free Market

"If you don't create a free market, a black market will emerge"

NEWSLETTER OF THE LITHUANIAN FREE MARKET INSTITUTE - www.freema.org/Newsletter/index.phtml

CONTENTS:

NEWS

Gathering Resources to Promote a Free and Responsible Europe

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LFMI is inviting European think-tankers to the 2nd ERBM in Vilnius in October

The Lithuanian Free Market Institute (LFMI) is privileged to host the Second European Resource Bank Meeting (ERBM), titled "The European "Third Way": the Way Forward?," which will take place in **Vilnius, October 14-15th, 2005.** On behalf of the organizing committee the Institute invites the European think-tankers to join a gathering of about 200 think-tank executives, policy leaders, and experts who share the same values of freedom, organised in the capital of Lithuania - the bedrock of freedom in the post-Soviet block.

The mission of ERBM is to improve strategies and to enlarge the debate to reach all the people in advancing ideas of freedom in Europe. It is also a forum for organizations, experts, partners and friends to meet, expand their network, develop new ideas and share their experiences. The meeting will be a two-day event: it will be a combination of exchange of ideas and skill building workshops, followed by a joint ATLAS-LFMI two-panel session on economic security and concluded by a gala dinner.

Among the featured guests will be **Dr. José Piñera**, the architect of public pension reform in Chile and the founder and President of the International Centre for Pension Reform in Santjago; **Mr. John Blundell** of the Institute of Economic Affairs; **Richard Rahn**, **Dr. James Tooley** and many other inspiring contemporary leaders who devote their everyday work to fight for freedom.

The conference will take place in the hotel *Reval Hotel Lietuva*, the newly refurbished hotel in the centre of Vilnius and one of the main landmarks in the city. Room reservations should be made directly with the hotel. All hotel and event information and registration is available online at www.rbeurope.org. For any additional information, please contact LFMI's Project Coordinator Simonas Girdzijauskas at simonas@freema.org.

The second European Resource Bank Meeting is organized by the Lithuanian Free Market Institute in cooperation with Institute for Economic Studies Europe, F.A. v. Hayek Institute, Centre for New Europe, International Policy Network, Institute Bruno Leoni and ATLAS.

LFMI analyses potential effects of the euro launch in Lithuania

Seeking to analyse the consequences that the introduction of euro may exert on Lithuania, LFMI has competed a study on the euro impact on the Lithuanian people and companies. The study was presented at a discussion "Major Challenges for Lithuania while Joining the Euro Zone" held on May 27, 2005. Contrary to the ongoing pro-euro campaign, the event was designed to look into, and evaluate, the potential negative effects of the euro introduction. To disseminate the message more widely and to further the debate on this issue, LFMI organised another discussion "The German vs Lithuanian Road towards Euro: Practice and Perspectives" on July 14, 2005.

After weighing the pros and cons of the membership of the euro zone, LFMI concluded that the launch of euro in Lithuania will have a positive impact on Lithuanian households and corporations (the costs incurred in exchanging currencies will decrease). However, it will bring negative results as well because the certainty and the risk regarding the policy pursued by the European Central Bank (ECB) will diminish. Other important risk factors are the social financial obligations of some major EU member states which can undermine the value of euro, and a possible impetus towards the enlargement of the euro zone in the field of new harmonisation projects such as the harmonisation of the corporate profit tax.

In the LFMI's opinion, Lithuania's membership of the euro zone will bring benefit to its people only if competition among different currencies remains, if the ECB and European central banks continue a conservative policy and, most importantly, if the older EU countries focus on reforming their current systems failing to correspond to the economic, demographic and social reality.

Four Lithuanian NGOs have formed a Civic Alliance against Corruption

In May 2005 four Lithuanian non-government organisations – the Lithuanian Free Market Institute, *Transparency International Lithuania*, the Institute of Civic Society and the Human Rights Monitoring Institute – established a Civic Alliance against Corruption. The goal of the Alliance is to take an active part in the anti-corruption activities in Lithuania and to urge the Government of Lithuania to embark in practice on the implementation of the corruption prevention policy. The project is supported by the Embassy of the United Kingdom.

Members of the Alliance will make several studies which will show how to build conditions for the society's participation in the fight against corruption and how to strengthen the supervision of the ethics of politicians and civil servants. LFMI is conducting a study on e-government in Lithuania as the way of enhancing the accountability of public administration system and improving conditions for citizens' involvement in the decision making process.

A number of round table discussions and meetings will be held with politicians, representatives from the public sector and relevant anti-corruption services, law makers and members of NGOs seeking to incorporate them into a broad movement against corruption. Also, policy proposals will be formulated encompassing policy measures on how to improve corruption prevention.

The 15th survey shows first signs of pessimism on the market

In May 2005 LFMI released the 15th survey of the Lithuanian economy which is based on market participants' 2004 estimates and updated forecasts for 2005. The results of the survey are presented in a Lithuanian-English publication. Launched in 1997, the LFMI survey is based on the expert consensus paradigm originating from the theory of rational expectations

According to the survey of market participants conducted by LFMI in January to February 2005, the economic situation in Lithuania in 2004-2005 remained stable. The economy is still growing rather rapidly, but not as fast as in 2003; the financial situation of Lithuanian companies is improving, unemployment rates are declining, and the average salaries, although not growing as fast as expected in 2004, are expected to increase rather considerably in 2005. Economic growth is stimulated by growing consumption, a strong domestic market and export growth, increasing investments, and brighter expectations of both companies and people.

On the other hand, the survey also shows that the size of rather large shadow economy has not been decreasing for several years, and instead appear to be growing: market participants believe that currently the level of the shadow economy is rising. Moreover, as many as four in ten people that officially earn the minimum wage additionally receive payments "in hand."

The general trend of this survey is that market participants' estimates are much more moderate than a year ago. At the beginning of 2004, inspired by high expectations of the upcoming European Union (EU) accession, market participants voiced very optimistic forecasts in almost all sectors. In this survey, however, while they still expect to see a constant growth in employment, average salaries, investments and foreign trade, market participants do not project any rapid changes brought about by any external factors.

Tax Freedom Day in Lithuania Fell on May 5 in 2005

According to the Lithuanian Free Market Institute's (LFMI) annual calculations, Tax Freedom Day in Lithuania moved slightly earlier in the calendar and fell on May 5 this year. In 2005 the average Lithuanian taxpayer had to work 125 days to pay the total tax bill imposed by all levels of government.

The Tax Freedom Day is a symbolic day in the year when the average income earner stops handing over all his income to the government and begins to make money for his own and his family's welfare. It is an indicator of the tax burden in relative terms which shows what portion of the value created by the people is taken by the government to be distributed through the national budget and non-budget funds.

LFMI calculates the tax burden as the ratio of projected total tax revenues to net national product (NNP), based on the methodology used in other countries as well (USA, Canada, UK, etc.). The tax burden, calculated according to this methodology, does not encompass money expenditures and time costs incurred related to tax administration. Government borrowing is not included either, while in Lithuania it is constantly growing and may become a tax burden in the future.

This year Tax Freedom Day in Lithuania arrived three days earlier than in 2004 but it doesn't mean that Lithuanians started to pay less in taxes. The total amount of taxes collected to finance the state function will be more significant this year as compared to 2004. The tax burden in relative terms (!), due to bigger NNP generated, will decrease from 35.1 percent in 2004 to 34.1 percent this year, whereas the tax burden in absolute terms will go up, amounting to 19,4 billion litas in 2005 as compared with 17,7 billion litas in 2004.

LFMI started the tradition of commemorating Tax Freedom Day in Lithuania in 1993. Since 1993, when the Lithuanian taxpayers turned to the government everything they earned until April 13, Tax Freedom Day has moved later in the calendar. Starting from 2001, Tax Freedom Day came earlier every year: on May 15 in 2001, on May 4 in 2002 and on May 3 in 2003.

The reform of state registries - among LFMI's targets

Seeking to steer the reform of the state registries to market relations, on June 9, 2005 LFMI staged a discussion and a press conference "Competition in the market of the registry services" to present a study on possibilities to reform the state registries. In this study LFMI's policy analysts formulated a proposal for the reform in the system of state registries to make their services more efficient, accessible and transparent.

LFMI thinks that it is indispensable to overhaul the system of state registries as this would promote the knowledge economy, companies' competitiveness and economic benefit to residents, while access to the information accumulated in registries would become quicker and simpler.

The objects of the study are the registries having the biggest commercial value: the registry of real estate, the registry of mortgages, the registry of legal persons and the registry of residents. It is likely that their reform would bring the most considerable potential effect, and there are the biggest preconditions that competing service providers would emerge in this market.

The principles of the proposed reform are the following: to separate structurally monopoly functions from non-monopoly ones; to ensure transparent pricing in the registry sector; to treat all consumers of registry services equally; and to shift the performance of functions in the electronic medium.

LFMI states that the drafted reform would unburden the system from unnecessary procedures and visiting various institutions, increasing alongside the security of the registries and the service providers' responsibility. In addition to that, the reform would promote the business of information dissemination and competition thereof, drive down the costs and the price of services and diminish incentives to steel information.

LFMI actively supported the idea of more sizeable tax reduction

As the Lithuanian Parliament contemplated the widely discussed tax changes, LFMI repeatedly voiced its position and recommendations urging the authorities to refrain from imposing new taxes and to cut the personal income tax more radically.

As one the final attempts to debate the tax reform, on May 11, 2005 the Chairman of the Parliament Arturas Paulauskas organized a two-hour meeting with Lithuania's most reputed economic and financial experts, LFMI's President Ugnius Trumpa being among them.

LFMI's President also took part in a meeting held by the President of Lithuania Valdas Adamkus the next day after which the country's prominent economists unanimously asserted that there were other alternatives to compensate for budget losses rather than introducing a new tax on business. However, the Parliament adopted the fiercely opposed new tax as a source of budget revenues to offset the ensuing losses after the enacted personal income tax cuts.

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OPINION

The following commentrary was posted online on the news agency's ELTA portal on May 4, 2005. The author looks into the problem of smuggling and its relation with high excise duties applied in the EU.

How Long the EU will be Blind to Smuggling?

By Giedrius Kadziauskas, Policy Analyst, LFMI

Several days ago a news release was issued informing about approaching new increases in prices of tobacco products and fuel as Lithuania's commitment to the European Union. In other words, the level of excise duties in Lithuania is to reach the minimal level set up by the EU. It's evident enough that this minimal level is not minimal at all for Lithuania and other newcomers of the EU where the level of income and the living standard are expected to rise to the EU average only in some 15 to 30 years. Supposedly, the news was broadcast to let people get prepared to buy more expensive cigarettes and petrol, to look for their cheaper substitutes and, finally, to get used to the idea that news about the leaking Lithuanian border is a natural, inevitable and heightening malady.

Meanwhile, smuggling is growing with gusto! Every single rise in excise duties messages to smugglers-entrepreneurs about the swelling ranks of their potential customers and that they have an opportunity to mark up prices of their goods. It is impossible to measure the real scale of smuggling. The least recorded crimes are those which leave behind no victim and which do not harm a specific person. Such is the nature of smuggling: except a group of border-guards and a number of payers of excise duties and producers of legal goods, all the rest are satisfied – consumers, smugglers and a certain number of border-guards or customs officials.

One of the indicators, which is the source to start calculating the scale of smuggling, is the quantity of detained illegally carried cigarettes. According to the data of the State Border Guard Service, this quantity has been multiplying by double every year since 2001: the number of packages of cigarettes captured at the border amounted to 0,25 million in 2001, 0,5 million in 2002, 1,5 million in 2003 and 3,4 million in 2004. There is no doubt that having such experience in apprehending smuggled products and financial support from the EU the efficiency of the work of officials safeguarding the border and the customs has improved. However, it's logical that if smuggling did not proliferate, the number of smuggled cigarettes detained should go down along with the officials' advancing efficiency. This is because aggravated penetrability of the border increases the price of the end-use product.

A survey carried out by the Lithuanian Free Market Institute (LFMI) in 2004 showed that more than a half of cigarette consumers buy smuggled cigarettes at least once in a while. About a third of all cigarette consumers buy illicit cigarette supplies regularly or frequently. This data and the growing number of detained cigarettes demonstrate that the potentially improved border protection and a rising number of captured illicit goods fail to curb this illegal activity, currently developing more rapidly than before.

Problems arise not just in Lithuania. For example, in Sweden 1,35 million cigarette packages were confiscated in 2002, while the number in 2003 was 3,7 million. In Great Britain, empty cigarette packages collected after a football match showed that more than 90 percent of cigarettes smoked at the stadium that day had been smuggled. Great Britain estimates that as a result of illicit trade of tobacco products its budget does not collect income of about 6 billion euro from excise taxes and VAT.

Revenues from increased excise duties go into the government's pocket, while multiplied profits from sales of illegal goods serve as investments into the smuggling business. Observing such favourable business conditions, the bosses of smuggling don't lack ideas. Starting at the lowest level, the working and living conditions are facilitated for the so-called "ichtyomen,"[*] drivers of enhanced-enlarged cross-country vehicles, old ladies-sellers and other lowest-income employees. Ending at the highest level, prevention of punishment is tackled by trimming the list of punishable actions of smuggling, by softening sanctions laid down in the Penal Code or by dealing with prevention of penalties for smugglers directly in courts.

It's natural that once a smuggling business is established, and all its chains are functioning, its owner will be willing to exploit the investments made and to carry en rout a woman, a bomb or a bar of uranium, let alone such "ordinary" goods as footwear and wardrobe. Another way to employ profits from smuggling is to lend them to those who cannot lend from official sources. Shortly after the war against terrorism broke out, some newspapers in the U.S.A. published information that part of terrorist activities had been financed from illegal trade of tobacco products among the States. Similar opinions are cropping up as regards the origin of terrorist funding in Europe. So Lithuanian smugglers-bankers have ample opportunity to take into their pocket if not European, so at least Lithuanian villains.

Increased accessibility to smuggled cigarettes is a roadblock to achieve the goals of health care and juvenile prevention. One of such goals, sought by high excise duties on fuel, tobacco and alcohol products, is all governments' desire to reduce overall consumption of these products for the purposes of environment protection and society's heath care. Cheap illicit tobacco products close the door on this aspiration as significantly cheaper smuggled goods are frequently of poorer quality and more easily accessed by consumers than the legal ones.

The opponents of high excise taxes or small cigarette packages argue that cheap tobacco products will become obtainable by children who usually don't have large amounts of money. But the opportunity to get cheap smuggled cigarettes without any control blocks the way for making tobacco goods as remote from youngsters as possible. Selling of cheap legal tobacco products to some extent can be controlled by disciplining salespeople and building a general environment of intolerance for structures that sell tobacco to teenagers. But it isn't like that in the marketplace or in kiosks where cigarettes from under the counter can be purchased by anyone who is tall enough to hand in cash.

LFMI consistently advocates lower taxes for either sugar or tobacco products as it evaluates their impact not just on the consumer or producer alone, but also on the overall economy. Although it's unpopular or even risky to talk about the reduction of excise duties on tobacco products, yet it is indispensable to look into the roots and the consequences of this problem.

It's only a matter of time when serious debates will be launched regarding the effectiveness of policy on excise taxes and its effects on the security in the EU. Only a threat to security and the amounts of euros thrown at safeguarding the EU's exterior border, being conducted by the new member states, will force the EU officials to speak about changing the course of the excise duty policy by starting to remove the minimal level that the new EU countries are to adjust.

[*] The so-called "ichtyomen" in Lithuania are smugglers who participate in the chain of illegal carrying of goods by swimming under the water across the river Nemunas, from the Kaliningrad Region to Lithuania.

Various calculations show that evaluating increased excise duties and higher income of Lithuanian households, tobacco products will be less affordable by Lithuanians in 2008, as compared with the current situation. Consequently, satisfying the needs of the expanding market of smuggled tobacco goods will be the major source of smugglers' profit and Lithuanian government's headache in the future. Most importantly, this headache should become an EU-wide ailment because the remedy – the decision regarding lower excise duties – rests in the corridors of the European Union.

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ANALYSIS

In the following article LFMI's Vice-president Guoda Steponaviciene speaks about what happens when regulators start "organizing" competition. The article about telecommunication regulation was posted on http://www.techcentralstation.be/, a free-market oriented, on-line think tank, on May 6, 2005.

The Worm Turns

By Guoda Steponavičiene, LFMI's Vice-president

EU Competition Commissioner Neelie Kroes argues that antitrust and state-aid regulation in EU countries must be reinforced in order to spur competition. The same idea is rather widely elaborated in the revised Lisbon Agenda for growth and jobs.

True, increased competition is always beneficial for consumers, market development and the general well-being. However, this is only if one is referring to natural, not artificial, competition -- when companies compete for consumers and their money by offering the most desired services at the lowest possible prices. To be sure, some suppliers are more successful in this struggle and gain a bigger number of consumers; some are less so and have only a small market share. Remember that market shares are constantly changing and no victory is ever final. This is especially true of fast developing services such as telecommunications. A popular new service, technology or scheme of payment can substantially change the range of leaders, despite the efforts of the regulator and without an infusion of taxpayer money.

Mistrust of market competition is often fueled by the fact that some operators gained their market share at a time when competition was legally restricted due to monopoly rights granted to one player. This incumbent operator (as a rule -- in fixed telephony) enjoys a competitive advantage due to historical legacy. As in all other sectors, a concept of dominant operator is used. Domination in the market (according to the EU's competition legislation, this means having 40 percent of the market share) implies additional obligations towards other market players -- compliance with which is closely controlled by the regulator.

The present paradigm of telecommunications regulation in the EU could be called a concept of "efficient competition" based on *ex ante* regulations of so called SMPs -- operators holding significant market power. A business is considered to be an SMP "when either individually or jointly with others, it enjoys a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and ultimately consumers".

From a technical point of view this change in competition policy from dominant to significant market power could be considered merely a reinforcement of the former principle. Seeking to avoid abusive behavior of overly strong market participants, only one operator (or their group) was regulated before; under the SMP scheme, several operators are seen as being able to abuse consumers and thus are regulated. However, from an economic point of view this is a fundamental change in competition policy.

First of all, it diminishes a popular argument about the unfair starting conditions of the incumbents and other operators: now, every market participant, even the newest one, can be recognized as a potential abuser and thus restricted. Second, significant market power, as compared to dominant power, is a rather softly defined concept, which leaves the decision to the regulator. Third, while the obligation for the dominant operator in essence used to be its price control (the so called price cap), for the SMP it also means its activity control: obligation to connect to the infrastructure, obligation of non-discrimination, obligation to proof costs and so on.

All of this raises two major questions for the present framework of telecommunications regulation policy and practice: first, why to regulate and, second, what undertakings to regulate.

As the framework directive describes, the goal of regulation is "to ensure that users derive maximum benefit in terms of choice, price and quality; ensure that there is no distortion or restriction of competition in the sector, encouraging efficient investment in infrastructure and promoting innovation and encouraging efficient use and ensuring the effective management of radio frequencies and numbering resources."

The last goal, no doubt, should be in regulators' hands. However, in a market economy most of other goals used to be pursued by companies competing for the consumer. By definition, the goal of every economic undertaking in the market is to ensure maximum benefit for the user and efficient allocation of resources (investment, innovation). As for distortions and restrictions of competition, it is not clear what these might be. If we talk about legally granted exceptions (like monopolies) or legal restrictions on innovations, the regulator's obligation is to identify them and take them away. However, if market distortion is understood as natural differences of the market share, then we have an artificial market.

Services are never identical in an actual market and can't be so. So are benefits for users. Measure the benefits of different user groups over different time spans, and they all will differ. No one can achieve ultimate maximum benefit -- there is always a trade-off between immediate and future achievements, between favoring one or another type of clients.

Free competition in the market ensures distribution of these trade-offs: some operators prefer cheap and simple services to reach a large number of customers; some, investments to enhance the quality of services the next year; others, innovations in entirely new technology which (at high risk) will pay back in the long run. When the regulator steps in and starts "organizing" competition, the trade-offs are distributed according to the regulator's view and ability to measure. As in all cases of administrative distribution, the ability to measure is based on averages. Therefore, firstly, an artificial evening out of the operators' behavior is unavoidable. Secondly, some types of users can be entirely at a disadvantage. The first consequence leads to less choice for consumers, weaker competition and slower development of the market. The second consequence is just unfair.

According to the SMP definition, efficient competition is not in place when an undertaking or a group of them can act independently from competitors and consumers. This definition looks simple and even logical. However, if we look at the criteria for SMP recognition, we end up where we started: competition is when companies compete in the market…

SMP recognition is closely related to the definition of the market. According to the recommendations of the European Commission, 18 separate markets are distinguished in electronic communications. Each of these markets is analyzed by national regulators and SMPs are named for each of the market. This differentiation of the electronic communication market is another feature betraying the artificial nature of such reasoning -- do consumers buy e-communication services from x or y number of markets? Do suppliers engage in z different fields of activity? No, both consumers and suppliers simply communicate electronically in this world around us, while the regulators under detailed EU-wide regulations construct an alternative world with numerous sub-markets and trace each sign of domination through them. It may be appropriate for a post-modern virtual thinking, but economically it is infeasible

Those who have not forgotten yet the taste of a real apple should also remember that real apples sometimes have worms. A worm in the apple is not a pleasant surprise. But no consumer of real apples would think to report to some state agency blaming the gardener for this worm. It's because consumers have a choice -- a good-smelling apple with taste, though not perfectly round, red and whole; or a round, red and whole apple, but entirely artificial. Those who have ever tasted a real apple and understand the choice, vote for the former.

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COMMENTS

Rather than a strategy for EU salvation and economic growth the Lisbon Strategy might turn into a tragedy, writes Ugnius Trumpa, President of the Lithuanian Free Market Institute. His commentary was posted on the EUobserver.com, an independent and the largest online news site focused on the European Unijon (May 19, 2005).

The Lisbon Strategy or a Lisbon Tragedy?

By Ugnius Trumpa, President, LFMI

The agenda of the latest EU summit focused on two key issues: the services directive and the criteria of the Stability Pact.

However, preparations for the summit provoked heated discussions about the Lisbon Strategy and its future in the EU and the European Parliament.

President of the European Commission Jose Manuel Barroso pointed out, with good reason, that the prospects of implementing the Lisbon Strategy depended on the services directive.

The summit is over and it is already clear today that the prospects of the services directive are dismal, while the newly adopted changes to the Stability Pact, which are called exemptions, will acknowledge *de jure* the financial instability of several of the EU member-states and allow the European Commission to turn a blind eye to it.

Although upon the accession to the European Union many of the new member-states proclaimed their aspirations to join the European Monetary Union as soon as possible, the adoption of the exemptions in question raises serious doubts about the euro as a stable and credible currency given that every year more and more countries fail to comply with one or even several of the Maastricht criteria.

After the membership agreements are signed with Bulgaria and Romania, not only the European Commission but also all of the member states are likely to be faced with more economic, social and border security concerns.

What is in store for the European Union and the Lisbon Strategy if the underlying principles of a single market and transparent and stable public finances of the member-states are so easily flouted?

At a recent discussion of the Lisbon Strategy, authoritative experts made a foregone conclusion that the Lisbon Strategy had died. For many, this opinion may appear to be unexpected and unacceptable at first glance. But let's look at the results of the first five years of implementing the Lisbon Strategy and its prospects.

Management or political declarations?

A strategy is an established term in management theory and practice. It is about drawing a clear action plan that reflects and is in line with rationally assessed circumstances and resources.

The principle of open coordination, which underlay the implementation of the Lisbon Strategy from the very beginning, is in principle unsuitable for handling any kind of strategy.

For this reason the implementation of the Lisbon Strategy was from the very start nothing but free "drifting" of the member states towards objectives that were set by way of political compromise and therefore often appeared to clash with one another.

Developing a strategy for the whole of the European Union and setting detailed objectives that are directly independent of government authorities is unfeasible if only because economic and social processes, which are spontaneous in their essence and are only indirectly affected by government and actions, cannot be an object of strategic planning.

If strategic planning were applied to social and economic processes at the national level, such planning would lead to totalitarianism and social engineering.

So the Lisbon strategy is unfeasible because its object is not a specific organisation like, the European Commission, but the whole European Union and its economy.

For the aforesaid reasons even appointing responsible officials "Mr or Ms Lisbon" in the member states cannot serve as a part of the salvation plan for the strategy. Rather, this would inflict more bureaucracy on good initiatives and discredit them.

The strategy's Achilles' heel

The old EU member-states differ in terms of their economic capacities to achieve the social goals and specific indicators. For Portugal, Greece and even Spain, economic growth is today task number one because these countries would simply lack the resources necessary to accomplish other objectives.

As the strategy was created without allowance being made for the accession of the new member-states, there is a programmed gap between the Lisbon Strategy and the strategic goals and policy measures pursued by the newcomers.

Another problem is with the sectoral view on specific parts of the strategy and a lack of clear priorities. This creates conditions for institutional contradictions in implementing the strategy by the member states, while an absence of a coordinating centre and a lack of interim evaluations make any goals or assessment tools meaningless.

It is regrettable that the integration process, which was evident enough at that time, was neither assessed nor taken into account while developing and implementing the strategy.

The revamped strategy promises some change

There is no doubt that the revision of the strategy brought in positive changes.

The main strength of the updated strategy is the focus on economic growth as compared with the goals of social cohesion and sustainable development.

Scrapping the declarative goal of becoming a world leader and cutting down the objectives were certainly positive moves.

The deplorable results of the first five years led to necessary changes in administering the strategy too. The open coordination principle was foregone in favour of direct dialogue between the member states and the Commission. This is likely to enhance administrative effectiveness.

It is not clear whether the consolidation of the administration of the Lisbon Strategy and the appointment of a responsible minister in each member state will become positive factors.

After all, this means creating another bureaucratic structure whose effectiveness will depend on the political will of the national government and parliament. It is not clear whether a local "Mr or Ms Lisbon" will manage to put the Lisbon goals above national political or economic interests.

However, a single national plan and a single report (a sectoral principle was applied before) will facilitate the task of assessing the effectiveness of the plans and policy measures used.

The fundamental flaws remain

The main shortcoming of the updated strategy is that economic growth, which is emphasized in the strategy, is not viewed as the foundation of any social or environmental objectives.

This causes parallelism between the objectives, just like the previous version declared a pro-active position in those areas where economic processes occur spontaneously (such as competition, business and science relationships).

With regard to the compatibility and links of the strategy with other key reform initiatives, it is alarming that no attention is paid to structural reforms - like CAP reform.

Likewise, it is unclear whether constantly cited investments in R&D will not distort the market and whether they will be effective if used by public scientific and educational establishments; especially in the new member states.

It is regrettable that making assessments in terms of budget expenditures (e.g. 3 percent of GDP for R&D) rather than in terms of the effectiveness of the goals achieved and the measures used to achieve these goals is still a popular practice.

In addition to that, the strategy contains not only parallel but also opposite objectives -for example, maintaining jobs and to achieve a flexible labour market. Although the updated strategy emphasizes the role of social partners, the recent terror that trade unions in the old member-states employed against companies in the new member-states shows that labour mobility and competition will be strongly resisted.

The opposition against the services directive that had been unleashed before the recent summit in Brussels shows that reluctance to compete is the biggest obstacle to economic growth and the development of the single market.

The state or state-funded services sector and trade unions in the old member-states have been the biggest drag on economic growth, and these forces are likely to hinder the implementation of the Lisbon Strategy.

Given the inherent contradictions and weaknesses of the strategy plus the unfavourable external environment, this plan might become a "Lisbon tragedy" rather than a strategy for EU salvation and economic growth.

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The Free Market is a quarterly newsletter of the Lithuanian Free Market Institute, disseminated in electronic form for free.

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The Free Market is published by the Lithuanian Free Market Institute – an independent non-profit organisation established in 1990 to advance the ideas of individual freedom and responsibility, free market and limited government. Our motto is

If you don't create a free market, a black market will emerge

The founders of LFMI are – Prof. Kęstutis Glaveckas, Nijolė Žambaitė, Dainius Pupkevičius, Petras Auštrevičius, Elena Leontjeva and Darius Mockus.

LFMI pursues its mission by conducting research on key economic policy issues, developing conceptual reform packages, submitting policy recommendations at the legislative and executive levels, drafting and evaluating legislation, and launching public campaigns. LFMI's activities also include sociological surveys, publications, conferences, workshops, and lectures.

LFMI receives financial support from individuals, corporations and foundations. Devoted to the principles of private ownership, LFMI accepts no funds form the Lithuanian government.

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